

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments
Activity Status Report

ITEM NUMBER: 15

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: June 7, 2000

INFORMATION: X

PRESENTER(S): Réal Desrochers

The table below contains Alternative Investment activity for the month of April 2000 and historical information for selected time periods.

| | Month Ended 4/30/00 | Fiscal Year To Date | Past One Year | Past Three Years | Past Five Years |
|-----------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <u>Commitments:</u> | | | | | |
| Partnerships | \$ 308,000,000 | \$ 1,468,000,000 | \$ 1,497,500,000 | \$ 4,093,125,813 | \$ 5,166,128,539 |
| Co-Investments | 0 | 72,499,996 | 72,499,996 | 72,499,996 | 119,499,996 |
| Secondaries | 0 | 70,773,417 | 70,773,417 | 80,067,245 | 80,067,245 |
| | \$ 308,000,000 | \$ 1,611,273,413 | \$ 1,640,773,413 | \$ 4,245,693,054 | \$ 5,365,695,780 |
| <u>Contributions:</u> | | | | | |
| Partnerships | \$ 98,876,058 | \$ 1,181,010,748 | \$ 1,266,451,600 | \$ 2,546,918,154 | \$ 3,146,896,459 |
| Co-Investments | 0 | 43,166,685 | 43,166,685 | 43,166,685 | 90,166,685 |
| Secondaries | 239,353 | 62,071,755 | 62,071,755 | 69,833,584 | 70,058,584 |
| Mgmt. Fee (Outside) | 1,513,812 | 9,143,721 | 9,133,977 | 26,259,863 | 36,170,618 |
| | \$ 100,629,224 | \$ 1,295,392,910 | \$ 1,380,824,017 | \$ 2,686,178,286 | \$ 3,343,292,345 |
| <u>Distributions:</u> | | | | | |
| Cash | \$ 8,940,735 | \$ 375,752,077 | \$ 453,942,038 | \$ 1,117,587,591 | \$ 1,514,044,878 |
| Stock | 95,883,083 | 761,526,198 | 789,923,177 | 1,074,380,035 | 1,254,032,519 |
| | \$ 104,823,818 | \$ 1,137,278,275 | \$ 1,243,865,214 | \$ 2,191,967,626 | \$ 2,768,077,397 |
| Stock Sales | \$ 35,600,932 | \$ 612,226,137 | \$ 644,846,370 | \$ 892,838,161 | \$ 1,058,623,946 |

During the month of April 2000, staff recommended a \$200 million commitment to VantagePoint IV. This investment closed on May 3, 2000 with a final commitment amount of \$150 million. Attachment 1 provides an executive summary of this investment.

Delegation #35

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
VANTAGEPOINT VENTURE PARTNERS IV

Action: Commit \$200 million to VantagePoint Venture Partners IV which represents 16% of the total capitalization of the fund.

Background: Vantage Point Venture Partners IV, L.P. is being formed by Alan Salzman, James Marver and Jeff Marshall to make venture capital investments in entrepreneurial companies developing or applying innovative information technologies. In 1996, Messrs. Salzman and Marver co-founded VantagePoint and formed VantagePoint Venture Partners 1996, L.P. (Fund I). This was followed by the formation of VantagePoint Communications Partners, L.P. (Fund II) in 1998. Fund II focused exclusively on investments in companies developing or deploying advanced networking and communication technologies. The Partners launched Fund III in 1999—this fund marked a return to the strategy of investing in the same broad spectrum of information technology companies that was utilized in Fund I.

CalSTRS is an investor in one previous VantagePoint fund. CalSTRS committed \$45 million to VantagePoint Venture Partners III which was raised in 1999.

Analysis: VantagePoint Venture Partners IV qualifies as a follow-on fund as identified in the Alternative Investments policies.

The investment strategy for VantagePoint IV is similar to the strategy used in VantagePoint Funds I and III. The managers believe accelerating demand for more bandwidth, faster switching and universal connectivity is producing significant and consistent long-term growth in the information technology industries. The focus of Fund IV will be on acquiring significant equity positions in information technology companies at various stages in their development life-cycle and then working actively with these companies to influence their development, expedite liquidity and maximize their potential value.

Investment Thesis: Staff is recommending an investment in VantagePoint Venture Partners IV for the following reasons:

- Staff has identified VantagePoint Venture Partners as a Tier 1 Manager.
- The VantagePoint funds have consistently generated upper quartile investment returns.
- Co-investment opportunities will be offered with no fees and no carried interest.
- VantagePoint's venture capital strategy is consistent with the targets and ranges which have been approved by the Investment Committee to invest 16% of the Alternative Investment portfolio in venture capital limited partnerships.
- The VantagePoint investment strategy provides a good fit in the CalSTRS portfolio. There is very little overlap with CalSTRS' other venture capital partnerships.
- Staff has received a positive investment recommendation from Pathway Capital Management.

Policy Compliance: This decision complies with the portfolio's policies and procedures, which were approved by the Investment Committee on June 3, 1998. A positive written recommendation by the Alternative Investments advisor and CalSTRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit \$200 million to VantagePoint Venture Partners IV. CalSTRS' commitment is subject to the successful negotiation of partnership terms and legal review.

By:

Seth C. Hall
Investment Officer

Date_____

Recommended By:

Réal Desrochers
Director of Alternative Investments

Date_____

Approved:

Patrick Mitchell
Chief Investment Officer

Date_____